THE WHITE HOUSE
WASHINGTON

Executive Registry
84 - 9214

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/18/84 Number: 169067CA Due By:

Subject: Cabinet Council on Commerce and Trade with the President
Tuesday, September 18, 1984 - 2:00 P.M. - Cabinet Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Attorney General	☑	☐
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☑	☐
Education	☐	☑
Counsellor	☑	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
Baker	☑	☐
Deaver	☐	☑
Darman *(For WH Staffing)*	☑	☐
Mc Farlane	☐	☑
Svahn	☑	☐
Executive Secretary for:		
CCCT	☑	☐
CCEA	☐	☐
CCFA	☐	☐
CCHR	☐	☐
CCLP	☐	☐
CCMA	☐	☐
CCNRE	☐	☐

REMARKS: USTR Review Completed.

The President will chair a meeting of the Cabinet Council on Commerce and Trade today, September 18, at 2:00 P.M., in the Cabinet Room.

The agenda and options paper are attached.

Too Late

CONFIDENTIAL

ATTACHMENTS

RETURN TO:

☑ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☐ Don Clarey ☐ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
(Room 129, OEOB)

L-300-C

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON COMMERCE AND TRADE

September 18, 1984

Cabinet Room

AGENDA

1. Import Relief for the Domestic Steel Industry (CM#096)

CONFIDENTIAL

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

September 17, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM E. BROCK

SUBJECT: DECISION MEMO FOR TUESDAY'S CABINET MEETING ON CARBON AND ALLOY STEEL IMPORT RELIEF

By September 22, 1984, you must determine whether to provide import relief to the U.S. industries producing carbon and alloy steel. The case was brought before the U.S. International Trade Commission (USITC) under Section 201 of the Trade Act of 1974 by the United Steelworkers of America and the Bethlehem Steel Corporation.

The USITC determined that imports of certain carbon and alloy steel products have seriously injured U.S. producers and recommended a combination of tariffs and quotas to remedy this serious injury.

The case has been thoroughly reviewed by the interagency Trade Policy Committee, which has prepared four options for your consideration.

The four options are as follows:

Option 1: No relief.

Option 2: No action under Section 201, but direct the impementation of a comprehensive fair trade policy for the steel industry. The major components are: negotiation of arrangements to control surges for five years; reaffirmation of existing voluntary restraint measures and legislation to make them enforceable; consultations with our trading partners to seek the elimination of trade distortive and trade restraining practices; and rigorous enforcement of all our unfair trade laws.

Option 3: Provide import relief under Section 201 by instructing the USTR to negotiate orderly marketing agreements with Brazil, Korea and Spain and to seek a commitment

...IFIED BY Charles H. Bliss

CONFIDENTIAL

of prudence from Japan and Canada with respect to exports to the United States. Further import problems may be dealt with by unfair trade remedies, voluntary restraints or possibly orderly marketing agreements.

Option 4: Provide relief under Section 201 in form of: a tariff quota for semi-finished steel; quotas on sheet and strip, plate, structural shapes and units, and wire, determined by the larger of either import penetration ratios or minimum import levels, based on imports during the recent representative period 1979-1981; and increased tariffs on imports of wire products. The option affects all suppliers of these products but leaves allocation decision to the Executive Branch. (USITC Recommendation)

A paper discussing these options is attached at Tab A.

In my view, Option 3 is overly restrictive while Option 1 ignores the realities of world steel trade and the serious financial condition of American steel companies. I therefore recommend you select Option 2. My principal reasons are:

1. The United States has become virtually the only open steel market and therefore the world's steel dump. American steel firms and workers face an unprecedented and unacceptable surge of imported steel resulting in large measure from import restraints abroad and massive unfair trade practices such as subsidies and predatory below-market pricing. (A summary description of these restraints and practices is attached at Tab B.) We must deal effectively and swiftly with both the import surges and the unfair practices behind them if the industry is to have a breathing space to adjust and restore its competitive ability.

2. In responding to this pressing import problem, we must do all we can to avoid protectionism, to keep our market open to free and fair competition, and to provide certainty of access for our trading partners. This Administration has repeatedly, and most recently at the London Economic Summit, committed itself to "resist continuing protectionist pressures, to reduce barriers to trade, and to make renewed efforts to liberalize and expand trade in manufactures, commodities and services."

CONFIDENTIAL

3. It is not in the national economic interest to take actions which put at risk thousands of jobs in steel fabricating and other consuming industries or in the other sectors of the U.S. economy that might be affected by compensation or retaliation measures that our trading partners would be entitled to under Section 201.

4. This Administration has already taken many steps to deal with the steel import problem. In 1982, you approved the negotiation of a comprehensive arrangement restraining steel imports from the European Community. This Administration has also conducted an unprecedented number of antidumping and countervailing duty investigations of steel imports, in most cases resulting in the imposition of duties or a negotiated settlement. In addition, the governments of Mexico and South Africa have unilaterally imposed voluntary restraint on exports, leading to the termination of unfair trade complaints.

5. In view of the above, I believe that a combination of actions -- swift action to prevent surges, consultations to eliminate unfair practices and reestablish a level playing field, and vigorous enforcement of our unfair trade laws (including self-initiation of cases) -- can effectively deal with the remainder of the industry's import problems without the imposition of overly restrictive barriers. In this way, international trade in steel can be governed more by market forces rather than government intervention, and the steel industry will be given the chance to complete its modernization and restructuring.

<u>DECISION:</u>

Option 1 _____

Option 2 _____

Option 3 _____

Option 4 _____

Attachments

A - Options Paper
B - Summary of Foreign Import Restraints
    and Unfair Practices

CONFIDENTIAL

CARBON AND ALLOY STEEL SECTION 201
IMPORT RELIEF

I. Introduction

The Petitioners' Claims. This import relief case was brought by Bethlehem Steel and the United Steelworkers, who claim that increasing imports from all sources have seriously injured the U.S. steel industry. The petitioners supported their claim by pointing out that the share of the U.S. market taken by imports has risen from just over 15 percent in 1979 to over 25 percent through July of 1984, and asserted that there is a direct link between this import increase and the fact that domestic production and shipments have steadily fallen over this same period. They concluded that they have exhausted their ability to generate funds for further modernization without import relief, and that several firms will be unable to bridge the next economic downturn unless relief is provided.

USITC Injury Finding. The U.S. International Trade Commission (USITC) determined by a 3-2 vote that imports of five steel products -- carbon and alloy steel sheet and strip, plate, structural shapes and units, and wire and wire products -- have been a substantial cause of serious injury to the domestic industry. The USITC also voted by the same margin that imports of semi-finished steel are a substantial cause or threat of serious injury to domestic producers of these products. It determined, unanimously, that imports of steel bars, wire rods and railway products have not been a substantial cause of serious injury. Similarly, it determined by a 3-2 vote that imports of carbon and alloy pipes and tubes are not a substantial cause of serious injury to domestic producers.

USITC Recommended Remedy. The USITC recommended that the President proclaim five years of import relief to remedy the serious injury described above. The remedy includes tariffs on imported wire products; market share quotas on imported sheet and strip, plate, structural shapes and units (excluding light structurals), and wire; and a tariff-rate quota on imported semi-finished products to remedy the serious injury described above. Two of the Commissioners that were in the majority recommended that continued import relief be conditioned on the presentation of plans by the industry that described how the period of relief will be used to facilitate an orderly adjustment to import competition.

The President's Mandate. The USITC transmitted its report to the President on July 24. Under the statute, the USITC makes

CLASSIFIED BY Charles H. Blum
DECLASSIFIED ON OADR

the determination of whether the industry has been seriously injured by imports and suggests a remedy. The President must decide whether the imposition of the USITC remedy, or any alternative remedy, "is in the national economic interest." This consists of essentially a determination of whether the benefits of relief outweigh the costs to the whole economy. This decision must be made by September 22, 1984.

Previous Import Relief Measures

The U.S. Government first provided import relief to the steel industry in 1968 in the form of negotiated voluntary restraint agreements (VRAs) with the European Community (EC) and Japan. A second set of VRAs was negotiated in 1971 for the period 1972-1974. The unexpected boom in world steel demand in 1973 and 1974 caused these restraints to go unfilled and they were allowed to expire in 1974.

Imports began to surge again in 1977 and numerous antidumping cases were filed by U.S. steel companies. As an alternative to processing these cases, the Trigger Price Mechanism (TPM) was developed to monitor steel imports for evidence of dumping. When such dumping was found, the government agreed to self-initiate antidumping investigations. In March 1980, the U.S. Steel Corporation filed dumping complaints against EC steel producers, causing the TPM to be suspended. In October 1980, the U.S. Steel Corporation withdrew its petitions and the TPM was reinstated in a somewhat modified form. This form of relief also failed to work to the satisfaction of the domestic industry and numerous unfair trade cases were filed again. In January 1982, the US-EC Steel Arrangement was concluded, U.S. steel producers withdrew their cases against EC producers, and these unfair trade investigations were terminated.

In addition to the petitions brought against the EC, U.S. steel producers have brought 101 additional countervailing and antidumping cases against a wide range of countries and products since January 1981.

Presidential Decision

The President must first decide whether he wants to provide any new relief to the domestic steel industry against surging imports. If the answer to this question is no, then he must proclaim that granting any relief is not "in the national economic interest."

If the President determines that something should be done to assist the industry, he must decide whether to provide relief under Section 201 or through some other mechanism. The alternatives become:

CONFIDENTIAL

a) should the U.S. Trade Representative be instructed to negotiate only voluntary restraint agreements and informal understandings to control surges in steel imports; or

b) should the U.S. Trade Representative be instructed to use the authority of Section 201 to negotiate a combination of formal and informal arrangements with important surging suppliers.

c) should the President impose import relief as recommended by the U.S. International Trade Commission.

In either of the first two cases the emphasis could be on unfair trading countries.

When this decision is made, the President can decide what the level of import relief should be. No proposal is presented here for a binding import penetration limit. Proposals 2 and 3 do, however, recommend that the U.S. Trade Representative predict that the set of actions decided by the President will lead to a specified import level. This, of course, would not be a commitment to reach that level. The level in both proposals is approximately an 18.5 percent rate of import penetration for steel mill products excluding semi-finished steel.

Finally, if the President grants relief, he may decide what the duration of that relief will be.

* * * *

To aid in making these decisions, there follow four options and pros and cons on each.

II. The Options

1. No Relief

The President rejects import relief in this case on the grounds that such relief is not in the national economic interest and that the steel industry's import problems resulting from unfair trade practices are being adequately addressed under our unfair trade laws.

PROS

-- This industry has had import protection for the majority of years since 1968. During these years it has done little to become competitive. Increasing wages and restrictive work practices continued unabated until the recent collective bargaining concessions. In 1970 workers' pay in the steel industry was already 130 percent of the national industrial average. After three waves of protection in 15 years, their pay rose to 176 percent of the national industrial average. Average manufacturing productivity growth and real investment were greater than that in the steel industry during this period.

-- Protection for the steel industry would put many other trade-dependent U.S. industries and workers at a greater competitive disadvantage. Due to increased steel prices, consuming industries (autos, machine tools, etc.) would be less competitive in domestic and export markets.

-- While costs to the consumer of import relief programs vary, they do have one common denominator -- they are high. For example, the Federal Trade Commission (FTC) estimates the annual costs of the USITC option at $239 million or $99,000 per job affected in the steel industry. The TPSC Task Force estimates range from $389 million in annual consumer costs to $2.4 billion (depending upon the degree of relief granted), with costs ranging between $143,000 and $253,000 per job. Hence, the range is $99,000 to $253,000 with a median of $176,000 per job.

-- There is no guarantee that in exchange for these costs, substantial adjustment will occur in the steel industry. Industry experts predict that disinvestment will occur, regardless of whether import relief is granted. Further, if history is our guide, import relief may, in fact, discourage the industry from making the most difficult, painful adjustments.

-- Another cost, though less tangible, will be the effect of import relief on the credibility of the U.S. commitment to liberalize trade. This Administration has repeatedly, and most recently at the London Economic Summit, committed itself to "resist continuing protectionist pressures, to reduce barriers to trade, and to make renewed efforts to liberalize and expand trade in manufactures, commodities and services." Any form of import relief might be viewed as a departure from our Summit commitment and undermine support for a new trade round.

-- Import relief will also affect us vis-a-vis developing countries. At a time when a number of LDCs are undertaking

the painful political and economic process of structural adjustment, restricting access to our market could deprive them of a politically sensitive source of export earnings. The cooperative attitude we have had to date could be politicized and a confrontational situation could be substituted for it.

-- Finally, granting import relief under Section 201 requires that we compensate affected trading partners. Should we be unable to reach agreement on compensation, we could be subject to retaliatory measures that could conceivably affect strong U.S. export industries such as agriculture, aircraft, and electronics.

CONS

-- The steel industry reported that it lost $6 billion in 1982 and 1983. Most firms have only begun to return to a limited level of profitability and many may again experience losses in the third quarter of this year. Employment levels remain 40 percent below 1979 levels. Imports have captured a growing share of the U.S. steel market. Import penetration averaged 25 percent through the first seven months of this year, compared to 20 percent in 1982 and 1983 and 16.8 percent from 1979-1981.

-- Despite the losses of the past two years, this industry has initiated a major restructuring effort. It has lowered its costs and improved productivity through a variety of measures that have included employment reductions, a 10-15 percent wage concession, plant closings resulting in a net reduction in capacity of 20 million tons, the installation of new technologies, cutbacks in overhead costs and the selling of certain assets.

-- Import relief could provide the industry with a "breather" to regain its international competitiveness. The USITC found that certain segments of the industry are experiencing serious import injury that prevents it from undertaking capital investments necessary to improve its competitiveness. The USITC concluded that five years of import relief are necessary to allow this industry to generate additional income, make investments in modernizing facilities, and thus to adjust to import competition.

-- Some of the steel industry's current problems arise because of government intervention by other countries in steel trade. This intervention takes the form of subsidies, government ownership and domestic markets that are closed to steel imports. The effect of this intervention is to put additional import pressure on the U.S. industry. Certain countries (i.e., Brazil and the EC) claim that they will

phase out some of their government intervention in the future. The U.S. industry might benefit from a period of import relief as a bridge to that time when global trade in steel becomes less distorted by government intervention.

-- Import relief would provide a more comprehensive approach to dealing with the "serious" import injury identified by the USITC. The petitioners have argued that the expense of pursuing dumping and subsidy complaints against these and other products from a myriad of foreign producers is becoming increasingly prohibitive and, because of potential trade diversion, ineffective.

-- Addressing the steel import issue under Section 201 would reaffirm the use of the established statutes as the appropriate method of addressing import problems in contrast to VRAs or other informal agreements. VRAs have been spreading and may continue to do so. The U.S. Government has little control over the scope, duration or restrictiveness of these informal agreements. It would be more consistent with our international obligations if these actions were brought under the discipline of GATT Article XIX and Section 201.

-- Denying relief gives new strength to the steel quota bill, which already has enough co-sponsors to pass the House, with growing support in the Senate. The Congressional Budget Office estimates that passage of this bill would cost consumers $4.8 billion a year.

-- Failure to provide import relief could also 1) raise pressure for 201 reform to remove Presidential discretion after USITC injury findings, 2) promote calls for legislated relief for other industries, given the perception of Administration reluctance to use Section 201 and 3) reduce the chances of enacting a continuation of the Generalized System of Preferences which currently assists many developing countries.

2. <u>A Non-201 Import Relief Option</u>

The President could reject import relief under Section 201 authority on the grounds that it is not in the national economic interest, explaining the adverse downstream impacts and international repercussions as delineated in Option 1.

However, the President would recognize that there is a serious trade problem in this sector and that he intended to take the following actions:

A. Note that a small number of countries have been taking undue advantage of U.S. recovery by means of triple digit rates of import growth. Add that the United States is the most open market while others are closely controlled, and as a result is seeing substantial surges in imports and indeed has become the steel dumping ground of the world. Direct the U.S. Trade Representative to seek "surge control" arrangements with surging countries.

B. Direct the U.S. Trade Representative to monitor developments in the steel industry closely and seek such arrangements and/or suspension agreements for five years. Direct the U.S. Government to self-initiate unfair trade cases including antidumping, countervailing duty, and Section 301 cases to ensure fair competition.

C. Establish a monitoring range of 1.7 million tons for semi-finished steel. Note short-run need for these imports to protect U.S. steel jobs.

D. Indicate that surge control agreements along with the EC Arrangement, South African and Mexican voluntary export restraints and prudent practices by some other traditional suppliers should reduce import shares in the coming years. These and other voluntary arrangements would be made enforceable.

E. Seek industry adjustment and modernization actions designed to strengthen its competitive position and request the USITC to monitor these adjustment efforts.

F. Establish an interagency group to analyze all U.S. Government domestic tax, regulatory and anti-trust laws and policies which could hinder the ability of the steel industry to modernize.

G. Direct the Department of Defense and the Federal Emergency Management Agency to analyze domestic steel plate rolling capacity in relationship to emergency needs and recommend appropriate actions if inadequacies are found to exist.

H. Under this proposal, the above actions are expected to maintain steel imports at around 18.5 percent of U.S. consumption, excluding semi-finished steel products.

PROS

-- Avoids the confrontational aspects of forcing our trading partners to accept quotas. Encouraging rather than forcing our trading partners to limit surges is more in keeping with our desire to solve bilateral trade problems in a constructive, cooperative atmosphere.

-- Not implementing strictly enforced 201 quotas is less distortive to our economy; there is less likelihood of supply disruptions and significantly increased consumer costs.

-- Rejecting use of Section 201 in this case sends a signal to domestic industries that 201 will not be used as a "one-stop" means for dealing with unfair trade problems.

-- Requiring interagency review of future considerations to limit surges, enter suspension agreements, etc., will provide greater certainty that such actions will be in the "national interest."

-- This option would provide some leverage over the industry to encourage greater industry adjustment efforts.

-- Combining these trade measures with a commitment to develop possible legislative proposals to change domestic government policies would give the option greater political appeal.

-- Seeking industry adjustment could encourage investment efforts and help restrain wage increases.

CONS

-- The Council of Economic Advisers (CEA) believes that these actions are likely to result in an increase in consumer costs of about $2 billion per year, a reduction in employment in steel-using industries of about 14,000 and a potential threat to U.S. export industries. CEA estimates that only 8,000 jobs will be created in the steel industry.

-- Encouraging import restraint from our trading partners while rejecting Section 201 is inconsistent with our international obligations and many U.S. pronouncements and contributes to the spread of "gray area" trade measures taken outside of our statutes.

-- Actions taken outside of our established procedures lack discipline on duration and product coverage which the Section 201 procedures provide for.

-- By rejecting Section 201 relief this option limits the future flexibility of the Administration in dealing with steel trade.

-- Actions taken outside Section 201 offer little leverage over our trading partners to reduce surges. Under a 201 action, we could threaten to impose more restrictive unilateral measures if our trading partners did not cooperate. It is conceivable that certain countries, like Korea, will simply refuse to cooperate.

-- This action contemplates efforts to reduce surges of all steel imports, including those not found by the USITC to have been a "substantial cause of serious injury to domestic producers."

-- Granting relief outside of Section 201 provides a lesser likelihood of achieving real import reductions.

-- Administration "promises" to talk to our trading partners about import surges may be perceived as a weak response which could cause a Congressional backlash in which the quota bill might pass both Houses.

-- Action perceived by Congress as insufficient could also 1) raise pressure for 201 reform to remove Presidential discretion under this statute, 2) promote calls for legislated relief for other industries given Administration unwillingness to use Section 201 and 3) make difficult the enactment of the continuation of the Generalized System of Preferences which currently assists many developing countries.

3. <u>Provide Import Relief Under Section 201</u>

The President would accept the USITC finding of injury and reject its proposed remedy. Instead he would rely on existing import restraint commitments, unfair trade cases, three Orderly Marketing Agreements (OMAs), and jawboning to roll back the level of import penetration from its current level to a target at or about 18.6 percent, excluding semi-finished steel (1983=20.3 percent). In announcing his action, the President would state that the United States is the most open market in the world and as a result is seeing substantial surges in imports. Indeed, the United States has become the steel dumping ground of the world.

This proposal would have the following elements:

A. The President would determine that action under Section 201 is appropriate. However, he would reject the proposed USITC remedy recommendation. In its place:

(1) The President would instruct the U.S. Trade Representative to negotiate OMAs on the affirmative Section 201 products with three countries: Brazil, Korea, and Spain. The objective would be a reduction in import levels. The agreements would be for three years, renewable for two additional years. VRAs covering steel products on which there was no USITC injury determination could be simultaneously negotiated with the same three countries. Throughout the period of relief the President would have the authority to order additional OMAs with countries whose exports surge. None, however, are contemplated at this time, nor is there a belief that they would be needed.

(2) The President would adopt a somewhat liberalized USITC recommended remedy with respect to semi-finished products. This would be a tariff-rate quota that permits quantities of these products (higher than recommended by the USITC) to enter our market before the higher duty would become effective.

B. The President would direct the U.S. Trade Representative to contact the Governments of Canada and Japan to seek commitments that they exercise prudence when exporting to our market. The objective would be a reduction in their 1984 export level.

C. The US-EC Arrangement and the VRAs that have been announced by Mexico and South Africa would be continued.

D. The enforcement of countervailing and antidumping duty laws would address the problem of unfair imports from most other producing countries. Under existing unfair trade laws, VRAs may be appropriate alternatives to the imposition of countervailing duties, although it is not our policy to seek such restraint.

E. Management and labor would commit to adjust in return for relief provided. The USITC would be asked to provide periodic reports on industry adjustment efforts.

F. Administration officials would indicate that if this policy were implemented, import penetration should reach approximately 18.6 percent by the end of 1985.

PROS

-- This option, when combined with measures currently in effect (both voluntary and through formal agreement), could provide

limited but sufficient relief from the injury resulting from increased imports, increasing steel industry employment.

-- It would largely address the heart of the import problem as cited by the petitioners -- the dramatic increases from the largest non-traditional suppliers. It would be perceived more favorably by the industry than the non-201 option because it provides for broad product coverage, enforcement under Section 201, and the statement of a global target import penetration number.

-- By putting in place a remedy under Section 201, the President would be acting under a GATT-acceptable framework for addressing serious injury. Its limitation to a fixed period is also more consistent with the GATT and our free trade commitments than the non-201 option.

-- The use of Section 201 as the basis of a remedy would 1) reduce chances of steel quota legislation passage, 2) diminish industry pressure for Congressional action to eliminate Presidential discretion under Section 201, and 3) facilitate enactment of Administration-backed trade legislation.

-- Korea, Brazil and Spain have all pressed the U.S. Government to enter into steel arrangements with them. Thus, this option is very likely to be acceptable to them.

-- It would not restrict projected needed imports of semi-finished steel products, but would guard against massive semi-finished imports and the possible shutdown of the portion of these plants which produce semi-finished steel. Such a measure would be highly important to the steel worker.

<u>CONS</u>

-- This option entails specific restrictions on steel imports, which would be inconsistent with the Administration's free trade principles.

-- Restrictions are aimed at two large LDCs with major debt problems. Such an action would be perceived by some as yet another example of developed countries solving their problems on the backs of the LDCs. Also, a particularly large reduction would be difficult to obtain from Korea.

-- The option includes the possibility of import relief on products for which no injury determination was made by the USITC (i.e., pipe and tube). If this is provided through VRAs, it would be less consistent with GATT principles than granting relief strictly under Section 201.

-- The Council of Economic Advisors believes that these actions

are likely to lead to an increase in consumer costs of about $2.9 billion, a reduction in employment in steel-using industries of about 19,000, and a potential threat to U.S. export industries. CEA estimates that steel employment would increase by only 12,000.

4. USITC Majority Recommendation

The President would apply the USITC recommended remedy based on: 1) a tariff quota for semi-finished steel, 2) quotas on sheet and strip, plate, structural shapes and units and wire, determined by the larger of either import penetration ratios or minimum import levels, based on imports during the recent representative period 1979 through 1981; and 3) increased tariffs on imports of wire products. Import relief would be in effect for five years, with liberalization of the relief effective in the fourth and fifth years. Separate quotas and import volumes are provided for sub-products within the sheet and strip category The USITC did not develop a recommendation for allocation of the quotas in its proposed remedy.

The USITC found that the semi-finished steel industry is threatened with serious injury. However, the USITC noted the expanding domestic market for semi-finished products. It therefore recommended a quota level twice as high as 1983 so as to accommodate this structural change. The increase in the rate of duty on imports entered above the base quota level was intended to deter future increases in imports above the quota level.

The USITC recommended quantitative restrictions on sheet and strip, plate, structural shapes, and wire based on imports entered during the period 1979-81. The 1979-81 period was chosen by the USITC as the most recent representative period for imports because this period directly preceded two years of the most serious injury in the domestic industries and conformed to the USITC's practice of choosing a two to five year representative period. Second, market forces affected the level of imports during these three years since quantitative restraints were not in effect. The USITC noted that the Trigger Price Mechanism (TPM) had a limited effect on import market share after 1979.

The USITC recommended a tariff for wire products. Because this category is composed of a large number of different types of products, the USITC believed a quota could result in shortages of some products, and a shift in imports into higher-priced articles within the wire product category. The USITC recommended tariff was based on considerations of the change in import volume required for an appropriate remedy, the responsiveness of imports to an increase in a tariff rate, and the potential for absorption

of increased tariffs by exporting countries. The USITC noted that developing countries are the major sources of imports of wire products, and believed the potential for absorption of the tariff was, therefore, greater.

The USITC has also recommended the exclusion from import relief of four products: bandsaw steel, razor-blade steel, bread-knife steel, and shoe-die knife steel. The USITC recommended that the President review the record of additional exclusion requests made to the Commission.

In addition, two of the three Commissioners recommending relief suggested that it be conditioned on the presentation of plans that describe how the period of relief will be used to facilitate adjustment to import competition. One Commissioner recommended that these plans be submitted no later than 120 days following implementation of the relief.

PROS

-- Market share quotas providing for plates, sheet and strip, structural shapes and units, and wire result in a reasonable amount of certainty. With quotas, the quantity or share of imports is established--an important factor in a volume sensitive industry like steel. The greater the predictability of a relief package, the more effective it will be in promoting investment and modernization in the industry.

-- In comparison to fixed tonnage quotas, quantitative restraints based on import penetration ratios are more flexible and market oriented. In a growing market, the import penetration ratio quotas allow greater tonnages to enter, creating fewer distortions than a straight quota during a period of strong demand. A minimum import volume assures our trading partners that the volume of exports will not fall below a given level in a declining market.

-- The USITC recommendation on semi-finished steel is relatively liberal, allowing nearly double the historical record imports in this category of expected rapidly growing demand for foreign steel. Future need for imports of semi-finished steel should be well above current levels. To guard against the threat of injury, the USITC recommended a tariff-quota set at a threshold after which importers will have to pay the higher tariff, without creating the disruption of supply which a quota could cause.

-- The tariff for wire products would avoid the difficulty of administering quotas on many diverse products. The USITC fears that quotas on the number of wire products

included in this category could result in shortages of some products and a shift in imports into higher priced articles within product categories. Minor distinctions between the large number of articles constituting this portion of the industry make separate quotas for each article difficult to determine and administer.

-- The adjustment requirement suggested by two Commissioners is designed to increase the likelihood that the industry makes a maximum effort to improve its competitiveness while relief is in effect.

-- An estimated range of between 6,000 and 12,000 employment opportunities may be saved or gained in the steel industry if this option were implemented.

<u>CONS</u>

-- The USITC remedy, because of its limited product coverage and the base period chosen, would grant the domestic industry considerably less relief than they wanted. In fact, the industry has said that the USITC recommendations "not only will not solve the problem of injurious imports but can lead to further serious injury."

-- The potential diversion issue appears to be a very real and troublesome aspect of the USITC injury finding and recommendation.

-- Coverage of semi-finished steel and wire and wire products in any import relief could cause a foreign policy problem with the EC, as restraints on EC exports of these products would be outside the existing US-EC Arrangement. Similarly, tariffs on any products would be incompatible with the US-EC Arrangement. The EC has warned that any change in duration or scope of the Arrangement would cause its termination.

-- Any country allocated quotas based on an historical period as chosen by the USITC (1979-1981) would discriminate against newer suppliers.

-- Restraints, even relatively liberal ones, on imports of semi-finished steel, could impede the adjustment of the various domestic steel producers who are now, or might in the future, be importing semi-finished material. Therefore, import relief on this product category is particularly unlikely to promote the adjustment of these domestic steel producers.

-- Quotas, especially if allocated by country, transfer some of the benefits of reduced competition to foreign suppliers.

As a result, to the extent that import prices rise during a period of quantitative restraint, the foreign producers and their agents can capture the additional consumer cost.

-- Unless there are negotiated solutions to the imposition of these recommended quotas, demands by our trading partners for compensation or retaliation could run quite high. Similarly, increased tariffs will also generate compensation/retaliation claims which cannot be negotiated away as easily as quotas.

-- The annual consumer costs of this option have been estimated to range between $1.5 billion and $2.3 billion or about $196,000 to $253,000 per employment opportunity gained in the steel industry.

The inherent disadvantages of global quotas are numerous. Global quantitative restraints:

-- Introduce rigidities into the market by freezing relative market shares (as between imports and domestic production, between different foreign suppliers, or between different products);

-- Lead to monopoly pricing, since market share cannot be increased;

-- Can give undue market power to domestic producers if they are few in number;

-- Could create political forces which make it difficult to close inefficient plants or to disinvest. (If the whole nation is willing to bear the burden of import relief, what right does a company have to close a plant and wreak serious havoc in a regional economy, or move resources out of the protected industry into other kinds of business, or off-shore?) Thus a firm attempting to increase its competitiveness could find it impossible to get rid of inefficient capacity and not feel free to channel new resources into their most productive uses, such as off-shore production, or diversification.

-- Can create serious distortions about the profitability of potential investments in the affected industry, leading to investment in equipment which, though modern, cannot compete effectively against imports when relief ends.